



**VIRGINIA SCHOOL FOR THE DEAF AND BLIND
AND
VIRGINIA SCHOOL FOR THE DEAF AND BLIND
FOUNDATION**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2011 AND JUNE 30, 2012**

AUDIT SUMMARY

Our audit of the Virginia School for the Deaf and Blind for the years ended June 30, 2011, and June 30, 2012, and the Virginia School for the Deaf and Blind Foundation for the year ended June 30, 2011, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- certain matters involving internal control requiring Management's attention; and
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
SCHOOL HIGHLIGHTS	1 - 3
INDUSTRY STANDARDS	4 - 5
AUDIT FINDINGS AND RECOMMENDATIONS	6 - 10
INDEPENDENT AUDITOR’S REPORT	11 - 12
SCHOOL RESPONSE	13 - 14
SCHOOL OFFICIALS	15

SCHOOL HIGHLIGHTS

Virginia School for the Deaf and Blind

The Virginia School for the Deaf and the Blind (School) provides comprehensive instructional programs and residential services to children with sensory impairments and multiple disabilities from preschool through grade twelve. Local school systems refer students to the School. For deaf students, the School offers American Sign Language and provides deaf role models and opportunities for students to participate in extra-curricular activities. For blind students, the School offers Braille, specialized technology, and orientation and mobility instruction to meet the individual needs of the student. In addition, the School provides parent and infant services through a “Small Steps” program. Small Steps provides information, education, and support services to families with children in the birth to age three range who are deaf, hard-of-hearing, blind, have low vision, or deaf and blind.

The Virginia School for the Deaf and Blind Board of Visitors (Board of Visitors) establishes rules, policies, and regulations for the School as well as approving educational programs. They appoint and establish salary schedules for the superintendent, faculty, and other officers of the School. The Board of Visitors has 11 members that consist of four legislative members and seven non-legislative citizen members. The Superintendent of Public Instruction has designated a Virginia Department of Education staff member to serve as consultant to the Board of Visitors on matters pertaining to instruction, federal and state special education requirements, and school accreditation.

The School receives general funds, federal grants, income from the Virginia School for the Deaf and Blind Foundation (Foundation), and capital outlay funds. General funds supported 93 percent of the School’s operating expenses in fiscal year 2011 and 91 percent of the School’s operating expenses in fiscal year 2012. The School uses federal grants and income from the Foundation to supplement the general funds for operations. The General Assembly appropriates capital outlay funds at the beginning of a construction or renovation project. In 2011 and 2012, the School received capital outlay bond funds to support the construction and renovation project on campus. However, because construction projects occur over several years, the expenses do not match up with the appropriation. The unexpended appropriation carries forward each year until the project is complete. The table below provides an analysis of the budget and expenses for fiscal years 2011 and 2012.

Analysis of Budget and Expenses

	<u>2011</u>			<u>2012</u>		
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$ 9,015,858	\$ 9,935,396	\$ 9,932,806	\$9,070,858	\$ 9,824,333	\$ 9,823,171
Special funds	350,000	362,100	59,440	350,000	350,400	61,066
Federal funds	887,340	887,340	724,485	887,340	994,407	894,977
Capital outlay funds	-	57,851,151	22,970,657	-	36,666,067	22,469,233
Total	<u>\$10,253,198</u>	<u>\$69,035,987</u>	<u>\$33,687,388</u>	<u>\$10,308,198</u>	<u>\$47,835,207</u>	<u>\$33,248,447</u>

Source: Commonwealth Accounting and Reporting System

Operating expenses at the School fall into three programs: instruction, residential support, and administrative and support services. Instruction expenses primarily include salaries for teachers and teacher assistants. Residential support expenses primarily include salaries for residential dorm supervisors and staff.

Administrative and support services expenses include salaries for administrative staff and service contract payments. The table below shows fiscal year 2011 and 2012 operating expenses for the School by program.

Analysis of Operating Expenses by Program

	<u>2011</u>		<u>2012</u>	
	<u>Expenses</u>	<u>Percentage</u>	<u>Expenses</u>	<u>Percentage</u>
Instruction	\$ 4,927,084	46.0%	\$ 4,880,773	45.3%
Residential Support	4,491,631	41.9%	4,553,766	42.2%
Administrative and Support Services	<u>1,298,016</u>	<u>12.1%</u>	<u>1,344,676</u>	<u>12.5%</u>
Total	<u>\$10,716,731</u>	<u>100.0%</u>	<u>\$10,779,215</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

As of May 31, 2012, the School served 116 students including 80 residential students at an average per-pupil cost of \$92,924.

Students by Type and Fiscal Year

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Day Students	30	34	36
Residential Students	<u>95</u>	<u>84</u>	<u>80</u>
Total Students*	<u>125</u>	<u>118</u>	<u>116</u>

*As of May 31st of each year

As shown in the chart above, over the last three years enrollment at the School has continuously decreased due to decreases in the residential students. This directly affects the per-pupil costs included in the chart below. The average per-pupil cost has been on the rise over the past three years due to food costs and utility expenses increasing. Utility expenses have increased due to the addition of elevators and air conditioning in buildings where it did not exist in the past. In addition, because the decrease in students spreads across grade levels and gender, staffing reductions are not possible.

Cost per Pupil by Fiscal Year

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Expenses	\$ 11,130,360	\$ 10,716,731	\$ 10,779,215
Total Students*	125	118	116
Per Pupil Expenses	\$ 89,043	\$ 90,820	\$ 92,924

*As of May 31st of each year

Information Technology Structure

In July 2011, in recognition of special education's unique technology requirements, the Virginia Information Technologies Agency (VITA) granted the School an exception from their standard managed information technology service implementation. This exception pertains to information technology used by students and faculty in the classroom environment, but does not pertain to information technology infrastructure services that support the School's administrative staff and offices. VITA will continue to provide information technology services that support administrative functions. This limited exception does not declare that all of the School is "out-of-scope" to VITA. The School remains in-scope for project management, planning and budgeting, security, and technology procurements. This exception is contingent

upon the School's ongoing adherence to information technology policies, standards, and guidelines. This exception required the School to establish a separate network and infrastructure to support the students and faculty.

Payroll Service Bureau

As of January 1, 2010, the Payroll Service Bureau (Bureau), which is a division of the Department of Accounts, began processing payroll, leave accounting, and certain benefits data entry functions for the School. The General Assembly created the Bureau to achieve economies of scale in payroll and leave processing and to alleviate agencies' administrative burden while improving employee service levels. Participating agencies continue their management authority over payroll, leave accounting, and benefits functions. The Bureau performs payroll and leave accounting services at the direction and approval of the agency's management. Agencies have the ability to view their payroll and leave accounting information, but only the Bureau has the ability to perform system updates within the Commonwealth's Integrated Payroll/Personnel System. Because of the School's unique status within state government as a Kindergarten through 12th grade education provider and a lack of documented payroll procedures, the School experienced a difficult transition to the Payroll Service Bureau. The relationship has improved over the last couple of years. However, the School continues to duplicate efforts by performing reconciliations that are the Bureau's responsibility.

Virginia School for the Deaf and Blind Foundation

As of July 1, 2010, the State Board of Education began transitioning its governing responsibilities for the Virginia School for the Deaf and Blind Foundation (Foundation) to the Board of Visitors for the School. The Foundation is an IRS Code Section 501(c)(3) corporation that promotes the growth, progress, and welfare of the School. The Foundation administers gifts, grants, bequests, and devices consistent with their terms and for the benefit of the School. The Foundation has five to fifteen Directors on its Board. The School's Board of Visitors appoints the Superintendent and the Director of Operations of the School to the Foundation's Board plus a sufficient number of additional Directors so that the Board of Visitors has appointed a majority of the Foundation Board. The Foundation's Board of Directors elects the remaining Directors at its annual meeting. We audited the Foundation during its transition year. However, the Foundation must obtain an audit by a private CPA firm beginning for fiscal year 2012 since it is no longer a state agency.

Annually, the School receives income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. The Foundation operates on a calendar year; therefore, the following financial data is for the period January 1, 2010, to December 31, 2010, and January 1, 2011, to December 31, 2011. At December 31, 2010, the market value of the Foundation's investment portfolio was \$3,264,000, having gained \$355,492 during calendar year 2010. At December 31, 2011, the market value of the Foundation's investment portfolio was \$3,303,938, having gained \$39,938 during calendar year 2011.

INDUSTRY STANDARDS

Internal Control

The organization recognized for setting the standards for sound internal controls is the Committee of Sponsoring Organizations (COSO). This organization provides general guidance regarding what internal control systems should address and how these systems control financial compliance and other transactions.

According to COSO, management establishes the internal control system and is primarily responsible, with the support of senior management, for ensuring the effectiveness of the system. Management is accountable to the board of directors, which should be comprised of directors with sufficient independence from management. The board of directors is responsible for governance, guidance, and oversight.

More than any other individual or function, the chief executive officer sets the tone at the top that affects internal controls, specifically the control environment. Expressing a positive tone at the top regarding internal control and the importance of monitoring those controls involves the board of directors communicating expectations and taking actions when necessary.

Personnel responsible for key areas of operations, including financial reporting or compliance, should understand that management expects them to know the risks in their area of responsibility that can materially influence organizational objectives and monitor controls designed to manage or mitigate those risks.

When management or the board of directors identifies control problems, the actions they are required to take to correct the problem depend on the circumstances. By taking appropriate action, especially when deficiencies or their consequences are significant, management and the board of directors send a strong message throughout the organization about the role of monitoring and the importance of internal control.

Management develops internal controls in response to one or more identified risks that affect the achievement of organizational objectives, within the context of an effective control environment, and with proper information and communication. The process includes:

1. Setting objectives,
2. Identifying risks to achieving those objectives,
3. Prioritizing those risks, and
4. Designing and implementing responses to the risks, which are the internal controls.

Internal control systems fail for three reasons, which are as follows:

1. They are not designed and implemented properly at the onset;
2. The environment in which they operate changes, (such as through changes in risks, people, processes, or technology) and the design of the internal control system does not change accordingly; and/or
3. The operations change in some way rendering them ineffective in managing or mitigating applicable risks.

If the external auditor's work or regulatory examinations identify errors or control deficiencies, the organization should consider those results in the context of its own monitoring. The organization should identify the root cause of the errors or control deficiencies, prioritize any control deficiencies based on severity, and report the results to people who are in a position to take any necessary corrective action.

However, management should not plan to reduce its internal control monitoring in other areas simply because the external auditor or regulator did not find errors or control deficiencies. In addition, the board of directors should not decrease its oversight efforts.

Information System Security

As previously discussed in the Auditor of Public Accounts December 2006 Report titled “A Review of Information Security in the Commonwealth of Virginia,” COSO’s guidance does not specifically address information system security. However, it does provide a list of organizations that provide detailed guidance. The following major organizations have developed and contributed to the development of Information Technology Security Standards.

- International Organization for Standardization (ISO)
- US National Institute of Standards and Technology (NIST)
- Information Systems Audit and Control Association (ISACA)
- US Government Accountability Office (GAO)

Based on our review of these standards, we determined that they generally envision an information security program that has four general components. The following are the four components that the best practices indicate should comprise a sound information security program.

- Security Management Structure
- Data Protection, Integrity, Availability, and Confidentiality
- Configuration and Change Management
- Monitoring and Logging

Security Management Structure addresses the strategic organizational risks, vulnerabilities, and framework of the program. Data Protection, Integrity, Availability, and Confidentiality are the processes of classification, access, safeguarding, and control of information. Configuration and Change Management address the infrastructure and application process of handling information within the program over time. Monitoring and Logging is the final component of review, follow through and management response.

AUDIT FINDINGS AND RECOMMENDATIONS

Maintain a Positive Control Environment

The School should ensure that it maintains a positive tone at the top regarding internal controls. Because of the unique situation in which the School is a Kindergarten through 12th grade education provider operating as an executive branch agency, sometimes School management feels it is necessary to make decisions or take actions that go against established Commonwealth rules and regulations, as demonstrated in the following examples.

- The School circumvented VITA procurement policies that require all agencies to go through VITA to purchase computers and computer related equipment when the cost exceeds \$100,000. The School used a grant from its Foundation to purchase 200 new computers for the students and faculty directly from a vendor on state contract at a total cost of \$212,000. The School's management did not purchase the computers through VITA as required because they thought it would delay the process. VITA charged the School with a five percent surcharge on the total price of the computers, as they would have if the School purchased the computers through VITA.
- The School implemented the new information technology structure for the academic portion of the School without complying with VITA security policies because of the need to implement the system quickly for the start of the school year. For details on this noncompliance, see the finding below entitled, "Develop and Implement an Information Security Program and Improve Firewall Management."

Recommendation: Management should ensure that the "tone at the top" depicts the highest expectations for internal controls over daily operations. When making decisions that affect students, management should strive to ensure the School adheres to all Commonwealth policies and procedures. The School should develop and implement internal policies and procedures to supplement the Commonwealth's policies and procedures. The School should follow all VITA policies over project management, planning and budgeting, security, and technology procurement. Not following these policies could result in the loss of their exception from VITA management of the classroom environment.

Develop and Implement an Information Security Program and Improve Firewall Management

The School's exception from VITA's standard managed information technology service implementation for the classroom environment required the School to establish a separate network and infrastructure to support the students and faculty. The School implemented and continues to operate this structure without Information Technology (IT) risk management and contingency plans and without an information security program. The School's IT program lacks several minimum key controls that the Commonwealth's current information security standard, SEC501, requires agencies to implement to safeguard data. The Department of Accounts assisted the School in developing a draft program since our last audit. However, this program is general in nature and needs customization before it is usable.

A complete and adequate information security program is particularly important now that the School's information technology department manages certain parts of the School's network infrastructure instead of VITA. Without an adequate program, the School cannot implement appropriate safeguards surrounding data including confidential student records.

Recommendation: *The School should continue to develop the draft information security program and complete all the necessary components. The School needs to particularly evaluate and provide the necessary controls surrounding its newly acquired IT infrastructure responsibilities. In developing these controls, the School needs to consider the requirements in the Commonwealth's current information security standard, SEC501, and other industry best practices as appropriate.*

In addition, the School does not adequately manage its firewall that protects the instructional and student networks. The School implemented its new firewall without evaluating risks, configuring basic settings, or creating management policies and procedures. Overall, this weakens the security posture of the instructional and student networks, and makes the components connected to those networks, such as servers, desktops, and laptops more open to external attacks.

Recommendation: *The School should reconfigure its firewall to comply with the minimum requirements outlined in the Commonwealth's current information security standard, SEC501. The School should also develop firewall management policies and procedures to ensure consistent management practices. Additionally, the School should implement additional rules on the firewall to address its particular environment and potential risks. Lastly, the School needs to periodically perform and document vulnerability assessments and penetration tests against the firewall to ensure its proper configuration and protection capabilities of emerging threats.*

Improve Construction Contract Accounting

As part of the campus consolidation, the Staunton campus has been going through significant construction and renovations over the past several years. The General Assembly appropriated approximately \$73 million for this construction and renovation in fiscal year 2010. During fiscal years 2011 and 2012, the School had expenses of \$22.0 and \$21.5 million, respectively associated with the project. The construction project is comprised of demolition, renovation, and new construction to support the consolidation of the School's programs. The project includes construction of a new Maintenance Facility, Education Building, Deaf Dormitory, and Blind Dormitory; renovation of Stuart Student Center, Peery and Swanson elementary schools, and the Chapel building; creation of a new bus loop, Hope Road, a main entrance, and a playground; and demolition of a Maintenance Building and the Harrison Building. As of June 30, 2012, the construction project was 83 percent complete, and the School should take possession of all buildings on campus by the end of July. The courtyard should be complete by the end of November. The final phase of the project includes demolition of Darden Hall and installation of a parking lot.

The Department of General Services has performed the procurement and project management of this major construction project. However, the accounting for Construction in Progress related to the project is the School's responsibility. The School does not have adequate controls over the administration of its construction contracts and the accounting for Construction in Progress. Proper oversight by management is necessary to ensure that the school ensures that they are obtaining quality work at a reasonable price. We identified this issue in the prior audit, but the School did not make any effort to implement corrective actions to change its process.

During our review, we found the following issues:

- The School does not have an adequate process to track construction expenses that enables them to support the amounts ultimately recorded as assets in the Fixed Asset Accounting and Control System (FAACS). The School overstated the buildings recorded in FAACS for fiscal year 2011 by \$2.1 million due to double counting invoices when moving amounts from Construction in Progress to Buildings.
- The School did not properly remove three demolished assets associated with the construction project from FAACS. The School did not remove two assets demolished in fiscal year 2010 as part of Carter Hall until fiscal year 2011 and then did not record the proper disposal date. In addition, the School recorded the wrong disposal date for Harrison Hall. The School demolished the building in July 2010 but recorded it as disposed in FAACS as of September 2010. Since acquisition and disposal dates drive the calculation of depreciation, it is important for the School to record these properly.

The CAPP Manual provides guidance on how to track Construction in Progress that will ensure that agencies capture all possible project expenses and related detail and can smoothly transition assets to FAACS when the project is complete.

Recommendation: *The School should use the CAPP Manual guidance to develop their Construction in Progress Schedule. They should maintain sufficient internal documentation to support changes made to Construction in Progress balances and for assets moved from Construction in Progress to other asset categories in FAACS. The School should record the disposal of assets in FAACS timely and with the correct disposal date.*

Strengthen Internal Controls Over Capital Asset Useful Life Methodologies

As previously reported in the fiscal year 2010 audit report, the School does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). The School still has not developed and implemented an agency specific useful life methodology. As a result, the entity has a significant amount of fully depreciated assets. As of fiscal year 2012, they had approximately \$20.6 million in fully depreciated assets. In addition, as of fiscal year 2012 there is approximately \$761,000 in assets that are 90 percent depreciated and \$1.8 million in assets that are 75 percent depreciated. The majority of these assets are buildings and infrastructure.

GASB Statement No. 34, implemented in 2002, requires accumulated depreciation and depreciation expense to be presented in the Comprehensive Annual Financial Report (CAFR). The second implementation guide for GASB Statement No. 34 states, “If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated.” Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies’ own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset’s remaining life.

Recommendation: *The School should immediately develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.*

Improve Reconciliation Processes

The School does not have documented policies and procedures for their monthly Commonwealth Accounting and Reporting System (CARS) reconciliation process or their monthly Fixed Asset Accounting and Control System (FAACS) to CARS reconciliation process. In addition, the FAACS reconciliations do not have signatures and dates documenting the review process.

The Commonwealth’s policies and procedures require that agencies have detailed written procedures for meeting all CARS reconciliation requirements. These “desk procedures” must document the reconciliation process in an agency-standardized format, and the agency must have them available for inspection (with all supporting documentation) by outside parties, such as the Auditor of Public Accounts and Department of Accounts (Accounts). The lack of detailed written policies and procedures increases the risk of error in CARS and the modification of procedures to circumvent existing internal controls. Further, having procedures makes it easier to transition responsibilities when there is turnover and to hold employees accountable when they do not perform their functions.

Typically, the School does not have many fixed assets entered into FAACS, but given the current renovation and construction projects in progress on campus, the number of assets entered into FAACS has increased. Not having a review process for the FAACS to CARS Reconciliation increases the risk of error in the systems and the modification of procedures to circumvent existing internal controls.

Recommendation: *The School should develop, document, and implement policies and procedures for their CARS and FAACS reconciliation process. These policies and procedures should include signatures and dates for the preparation and review processes. The School should submit monthly certifications to the Accounts only after all required reconciliations are complete.*

Properly Record School Revenues

The School does not properly record school revenues. Instead of recording receipts as revenues, the School uses sub-object codes XX99, which is an intra-agency expenditure recovery. The School recorded revenues of at least \$104,735 for fiscal year 2011 and \$154,417 for fiscal year 2012 as an intra-agency

expenditure recovery. These revenues are associated with employees purchasing meal tickets for the cafeteria, employees and students purchasing items from the Student Center, rent charged for use of buildings on campus, and earnings from student fundraisers.

The Department of Planning and Budget (Planning and Budget) did not require agencies to request permission to use the XX99 sub-object codes for fiscal year 2011. However, agencies were still responsible for correctly using these codes. Agencies should not use recovery codes to record payments for goods or services provided to public or private individuals or entities. The School should work with Accounts and Planning and Budget to determine the proper way to account for these funds.

Recommendation: *The School should properly record payments for goods or services as revenue and not as intra-agency expenditure recoveries. The School should work with Accounts and Planning and Budget to determine the proper way to account for these funds.*



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 31, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia School for the Deaf and Blind (the School)** for the years ended June 30, 2011, and June 30, 2012, and **the Virginia School for the Deaf and Blind Foundation** for the year ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the School's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The School's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Contractual services expenses
- Supplies and materials expenses
- Payroll expenses
- Small purchase charge card
- Capital outlay
- Capital assets
- Information System Security

We performed audit tests to determine whether the School's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the School's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the School properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The School records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The School has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on August 28, 2013. Management's response to the findings identified in our audit is included in the section titled "School Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj



Dr. Nancy C. Armstrong
Superintendent

COMMONWEALTH of VIRGINIA

Virginia School for the Deaf and the Blind

P.O. Box 2069, Staunton, VA 24402
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<http://vsdb.k12.va.us>

September 2, 2013

Ms. Martha Mavredes
Auditor of Public Account
P. O. Box 1295
Richmond, Virginia. 23218

Dear Ms. Mavredes,

As the Superintendent for The Virginia School for the Deaf and the Blind (VSDB) I would like to respond to the recent audit conducted by your office. The audit was very thorough and identified areas that were noteworthy.

In response to the discussion in the audit report concerning the Payroll Service Bureau (PSB). The stated purpose of the PSB was "to achieve economies of scale in payroll and leave processing and to alleviate the agencies' administrative burden while improving employee service levels. Participating agencies continue their management authority over payroll leave accounting and benefits functions."

Prior to the establishment of the PSB, VSDB had the same management responsibilities and was required to ensure reconciliation for the agency. There have been frequent discussions with PSB and VSDB during the transition phase of PSB taking over, at this time VSDB will discontinue duplicating the Report 10 to Report 33 reconciliation. VSDB payroll is now comfortable with the spreadsheet coming from PSB.

I concur that establishing a positive tone concerning internal controls must start at the top.

In response to "School management feels it necessary to make decisions or take actions that go against established Commonwealth rules and regulations."

VSDB is a unique state agency because its mission is the education of Deaf, Blind, and Multi-disabled Children. Our requirements are not the same as those of a DSS or VDOT. Perhaps it would be reasonable to measure us against the rules and regulations benchmark against local school divisions' operating rules and regulations.

I agree that we need to do a better job on IT security and we have taken the necessary steps to achieve those standards. The Director of IT at VSDB is working closely with VITA to accomplish this task.

In response to the statement that, "Management is accountable to the board of directors, which is comprised of directors with sufficient independence from management. The board of directors is responsible for governance, guidance and oversight."

The Virginia School for the Deaf and the Blind does not discriminate on the basis of race, sex, color, national origin, religion, sexual orientation, age, political affiliation, veteran status, or against otherwise qualified persons with disabilities in its programs and activities.

The VSDB board directed me to seek an exemption from VITA as a result of the demonstratively large increase in IT costs for the school. Outside of the costs of VITA, VSDB assumed "out-of-scope" cost for software to meet the unique needs of the students.

The VSDB IT Director is aware of the essential components necessary to meet security standards, SEC 501, and other industry best practices. He is working with VITA to accomplish this task. Construction Contract Accounting was corrected as soon as this was brought to the attention of the Director of Operations. In addition, the Director of Operations has implemented the proposed accounting spread sheet, as suggested, for all new projects.

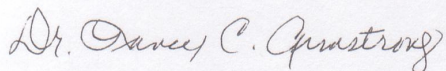
A policy has been written to re-evaluate the useful life on fixed assets.

VSDB has developed, documented, and implemented policies and procedures for their CARS and FAACS reconciliation process.

VSDB is in the process of working with DPB to account for funds related to payment of goods or services.

VSDB strives to meet the needs of the special population of students that we serve. We appreciate your time and efforts in assisting us to do this in the most efficient manner.

Best regards,



Dr. Nancy C. Armstrong

VIRGINIA SCHOOL FOR THE DEAF AND BLIND

Nancy Armstrong
Superintendent

BOARD OF VISITORS
As of June 30, 2012

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